

Message Text

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ACTION EA-13

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FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 9251

AMCONSUL MEDAN

AMCONSUL SURABAYA

C O N F I D E N T I A L DTKARTA 12474

LIMDIS

E.O. 11652: GDS

TAGS: ENRG, ID

SUBJECT: PETROLEUM: CALTEX CONTRACT OF WORK AND
COMMUNITY DEVELOPMENT

REF: JAKARTA 12466

SUMMARY, CALTEX INDONESIAN PRESIDENT (TAHIJA) CALLED ON ME TO EXPRESS CONCERN THAT PARLIAMENT MAY REACT NEGATIVELY, CASTING DOUBT ON TERMS CALTEX'S CONTRACT OF WORK, WHEN MAGNITUDE OF CALTEX'S 1973 EARNINGS (\$420 MILLION) AND EXPENDITURES ON COMMUNITY DEVELOPMENT PROGRAMS (\$3-4 MILLION) ARE DISCLOSED. TAHIJA SAID HE INFORMED GEN IBNU THAT CALTEX BOARD RECENTLY APPROVED ADDITIONAL INVESTMENTS OUTSIDE OIL PRODUCTION, POSSIBLY FOR RICE ESTATES AND PETROCHEMICALS. IBNU SUBSEQUENTLY INFORMED PRESIDENT SUHARTO WHO WAS REPORTEDLY DELIGHTED. I BELIEVE TAHIJA'S CONCERN POINTS UP NEED FOR MORE CONSULTATIONS BETWEEN USG AND COMPANIES FOR PURPOSE OF ASSISTING INVESTORS IN DEVELOPING INNOVATIVE PROGRAMS TO DEMONSTRATE COMPANIES SINCERE INTEREST IN PROMOTING DEVELOPMENT. END SUMMARY.

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QM CALTEX INDONESIA PRESIDENT JULIUS TAHIJA CALLED ON ME OCT 19 TO EXPLAIN HIS ATTEMPTS TO RESOLVE PROBLEM THAT CALTEX IS MAKING TOO MUCH MONEY AND NOT DOING ENOUGH FOR INDONESIA (MEMCON BEING POUCHED.)

2. TAHIJA SAID CALTEX'S 1973 NET INCOME WILL BE \$420 MILLION, THE 12TH LARGEST NET EARNER IN THE WORLD, AND OVER \$500 MILLION IN 1974 (ATSHODAY'S PRICES) WHEN IT SHOULD REACH 10TH PLACE. HE SAID THAT ALTHOUGH CALTEX WILL PAY \$630 MILLION TO GOI IN 1973 AND ABOUT \$750 MILLION IN 1974, HE IS CONCERNED ABOUT NEGATIVE PARLIAMENTARY REACTION WHEN CALTEX EARNINGS ARE DISCLOSED AND IT IS LEARNED THAT CALTEX'S COMMUNITY DEVELOPMENT PROGRAM AMOUNTS TO ONLY \$3-4 MILLION PER YEAR. HE WAS PLEASED CALTEX BOARD CHAIRMAN WAS CHIEF OF U.S. BOROBUDUR FUND BUT FELT CALTEX SHOULD DO MORE. HE RECENTLY URGED CALTEX AND SOCAL BOARD MEMBERS IN SAN FRANCISCO TO INVEST IN OTHER ENTERPRISES WHICH COULD BENEFIT INDONESIA AND CALTEX. (HE SAID CALTEX ADOPTED \$200 MILLION BUDGET FOR OIL EXPLORATION AND DEVELOPMENT IN 1974.)

3. TAHIJA MENTIONED WIJARSO, GOI DIRECTOR FOR OIL AND GAS, RECENTLY RAISED SUBJECT OF CALTEX CONTRIBUTION TO INDONESIA, MUTTERING THAT PERHAPS CALTEX CONTRACT OF WORK WOULD HAVE TO BE MODIFIED. AFTER WARNING AGAINST CHANGING CONTRACT OF WORK TAHIJA TOLD WIJARSO THAT CALTEX HAD APPROVED ADDITIONAL INVESTMENT PROJECTS. TAHIJA MENTIONED WIJARSO HAD ALSO TALKED TO IIAPCO WHOSE EARNINGS WERE ALSO LARGER THAN ANTICIPATED WHEN PRODUCTION SHARING CONTRACT SIGNED.

4. TAHIJA SAID HE IS CONSIDERING RICE ESTATES AND PETROCHEMICALS INDUSTRY AS FIELDS FOR POSSIBLE INVESTMENTS. HE ASKED FOR USAID ADVICE ON RICE ESTATES WHICH I ARRANGED. I ALSO SUGGESTED THAT HE LOOK AT POSSIBILITIES FOR PRODUCING FERTILIZER TO MEET ANTICIPATED SHORTFALLS IN INDONESIA AND IN REGION. TAHIJA SAID HE TOLD GEN IBNU SUTOWO, PRES. DIRECTOR OF PERTAMINA, OF CALTEX'S INTENTIONS. IBNU IN TURN INFORMED PRESIDENT
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SUHARTO WHO WAS REPORTEDLY DELIGHTED.

5. TAHIJA ALSO TOLD ME IN STRICT CONFIDENCE THAT CALTEX IS APPLYING FOR PRODUCTION SHARING CONTRACT INVOLVING HIGHLY PROMISING BARITO BASIN IN KALIMANTAN OFFERING A SIGNATURE BONUS OF \$15 MILLION, PERHAPS THE LARGEST BONUS YET PAID. HE THOUGHT GOI WAS FAVORABLY DISPOSED AND HOPED FOR AFFIRMATIVE DECISION IN NEAR FUTURE.

6. COMMENT: TAHIJA'S CONCERN IS A REFLECTION OF A PROBLEM THAT WILL TAKE ON GROWING IMPORTANCE AS THE "ENERGY CRISIS" INTENSIFIES. FOR INSTANCE, IN HIS SPEECH OCT 18 TO AMA, GEN IBNU SAID HE EXPECTED OIL COMPANIES TO BE "GOOD NEIGHBORS" IN LOCAL COMMUNITIES AND URGED COMPANIES TO DEVELOP IMAGINATIVE PROGRAMS TO BENEFIT INDONESIA (REFTEL. EVEN THOUGH CALTEX IS VIRTUALLY ONLY OIL COMPANY INVOLVED IN COMMUNITY PROJECTS, TAHIJA REALIZES IT IS NOT DOING MUCH. WHILE I RALIZE IT IS SOMEWHAT OUT OF CONTEXT FOR FOREIGN COMPANIES TO DO WHAT GOI EXPECTS, UNLESS COMPANIES CAN PROVE THEY ARE VOLUNTARILY PLOWING BACK REASONABLE AMOUNT OF LARGE PROFITS TO BENEFIT INDONESIA, PAPER ON WHICH CONTRACTS WRITTEN WILL BECOME INCREASINGLY FLIMSY. IN THIS CONTEXT, I BELIEVE THAT THERE IS A GROWING NEED FOR MORE CONSULTATION BETWEEN USG AND COMPANIES CONCERNED. OUR OBJECTIVE SHOULD BE TO STIMULATE MORE IMAGINATIVE, INNOVATIVE AND EFFECTIVE WAYS TO DEMONSTRATE THAT LARGE (AND SMALL) COMPANIES ARE BASICALLY BENIGN AND HELPFUL TO THE LDCS WHERE THEY OPERATE.

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